

January 2, 2012

Natural Gas Trends

Highlights

NERC: TEXAS' GAS SUPPLY ADEQUATE DURING FEBRUARY 2011 WINTER STORM

The North American Electric Reliability Corporation (NERC) released on December 23rd its *2011 Special Reliability Assessment: A Primer of the Natural Gas and Electric Power Interdependency in the United States*.

★★★★★★★★★★
Texas' supply of natural gas to electric power generators would have been adequate to meet demand, if generators had not experienced weatherization problems which made them unable to receive the fuel.
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NERC's 151-page assessment includes, among other topics, a discussion of the winter storm that blanketed Texas and other states in February 2011. During that storm, many electric power generation units either tripped, derated, or failed to start. NERC assessed whether, hypothetically, sufficient natural gas supplies would have been available to meet demand during the winter storm, if there had not been a loss of electric power generation units in the Electric Reliability

Council of Texas (ERCOT) region. NERC concluded that there would have been adequate volumes of natural gas to supply the electric power generation units that failed, if those generators had been operational during the winter storm (p. 112).

NERC's assessment contrasts similarities and differences between the electric power and natural gas industries, provides an overview of the history of each industry, and lists recommendations for improving communications between the two industries, given that the electric power industry is, at this time, the natural gas industry's largest customer segment. NERC's assessment can be downloaded at:

http://www.nerc.com/files/Gas_Electric_Interdependencies_Phase_I.pdf

Data

- February Natural Gas Futures Contract (as of December 30), NYMEX at Henry Hub closed at \$2.989 per million British thermal units (MMBtu)
- February Light, Sweet Crude Oil Futures Contract (as of December 30), NYMEX at Cushing closed at \$98.83 per U.S. oil barrel (Bbl.) or approximately \$15.74 per MMBtu

Last week: Texas, U.S. HDD lower than normal

For the week beginning 12/25/11 and ending 12/31/11, heating degree days (HDD) were lower than normal for Texas and the U.S. For the heating season (7/1/11 to 6/30/12), cumulative heating degree days were 7% below normal for Texas and 2% below normal for the U.S.

Source: www.cpc.ncep.noaa.gov

HEATING DEGREE DAYS (HDD)				
City or Region	Total HDD for week ending 12/31/11	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	172	- 38	1645	-7%
Austin	106	+ 1	686	6%
DFW	109	- 35	845	-10%
El Paso	156	+ 8	1082	-2%
Houston	89	- 4	507	-15%
SAT	83	- 17	530	-15%
Texas**	109	- 10	740	-7%
U.S.**	158	- 30	1222	-2%

* A minus (-) value is warmer than normal; a plus (+) value is cooler than normal. NOAA uses 65° Fahrenheit as the 'normal' basis from which HDD are calculated.

** State and U.S. degree days are population-weighted by NOAA.

Last week: U.S. natural gas storage at 3,548 Bcf

For the week ending 12/23/11, U.S. working gas in storage decreased from 3,629 to 3,548 Bcf, compared to 3,251 Bcf in storage a year ago and compared to an average of 3,120 Bcf in storage during the 5-year period from 2006 to 2010. Working gas in storage in the producing region (which includes Texas) declined from 1,214 to 1,205 Bcf.

Source: www.eia.doe.gov

U.S. WORKING GAS IN STORAGE				
Region	Week ending 12/23/2011	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,892	1,945	-53	+ 10.9%
West	451	470	-19	+ 6.4%
Producing	1,205	1,214	-9	+ 21.8%
Lower 48 Total	3,548	3,629	-81	+ 13.7%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

Last week: Gas rig count up 7 to 809

The gas rig count for the U.S. was up 7 when compared to the prior week and down 110 when compared to 12 months ago. The U.S. total rig count was down 1 when compared to the prior week, and up 313 when compared to 12 months ago.

Source: Baker Hughes

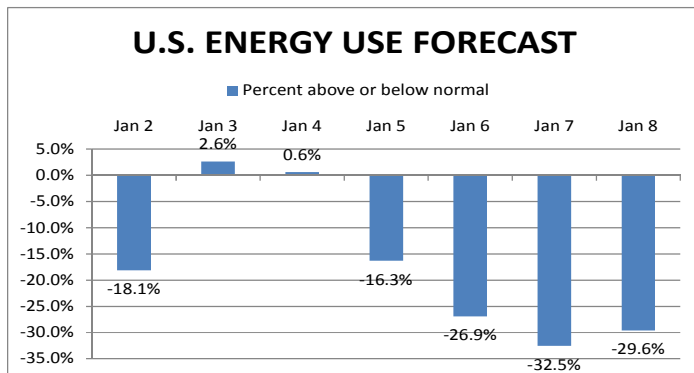
BAKER HUGHES ROTARY RIG COUNT				
	As of 12/29/11	+/- prior week	Year ago	+/- year ago
U.S. total	2007	-1	1694	313
Gas	809	+7	919	-110
Oil	1193	-8	765	428
Texas	917	-3	731	186
N. Amer.	2228	-186	1940	288

Numbers are excerpted and not meant to be totaled

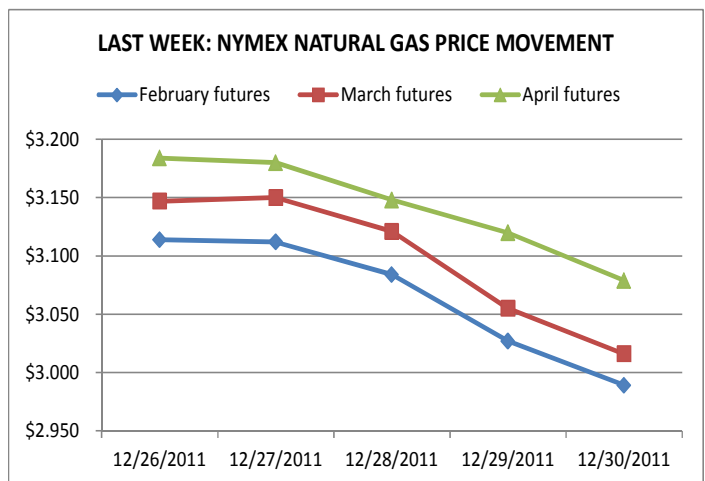
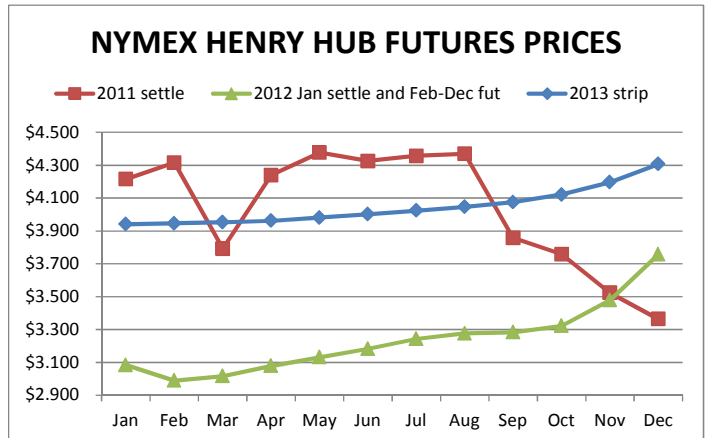
This week: U.S. energy use mostly lower than norm

U.S. energy use is forecasted to be mostly lower than normal, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



Strip prices. Natural gas strip prices, shown below in blue, are the average of daily settlement prices of the next twelve months of futures contracts for natural gas.

**NATURAL GAS PRICE SUMMARY AS OF 12/30/11**

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US February futures				
NYMEX	\$2.989	-\$0.125	-\$1.327	\$3.303

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